

AUDITING PROCEDURES REPORT

Issued under P.A.2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Mount Clemens Public Library	County Macomb
Audit Date June 30, 2005	Opinion Date November 15, 2005	Date Accountant Report Submitted to State: January 23, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised,
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- yes no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- yes no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (PA. 275 of 1980).
- yes no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- yes no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- yes no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- yes no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- yes no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- yes no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- yes no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Rehmann Robson			
Name Thomas Darling, CPA	City	State	Zip
Street Address 5750 New King Street, Suite 200	Troy	MI	48098
 Accountant Signature			

**MOUNT CLEMENS PUBLIC LIBRARY
MOUNT CLEMENS, MICHIGAN**

**ANNUAL
FINANCIAL REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2005**



REHMANN ROBSON
Certified Public Accountants

**MOUNT CLEMENS PUBLIC LIBRARY
MOUNT CLEMENS, MICHIGAN**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2005**

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

November 15, 2005

To the Board of Trustees
Mount Clemens Public Library
Mount Clemens, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the *Mount Clemens Public Library (the "Library")*, as of and for the year ended June 30, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the *Mount Clemens Public Library*, as of June 30, 2005, and the respective changes in financial position, thereof and the budgetary comparison of the General Fund for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2005, on our consideration of the *Library's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Lehmann Johnson".

MANAGEMENT'S DISCUSSION AND ANALYSIS

MOUNT CLEMENS PUBLIC LIBRARY MOUNT CLEMENS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Mount Clemens Public Library (the "Library"), we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- Total net assets increased by \$25,501 for a total ending balance of \$1,511,770 at the end of the fiscal year.
- General fund balance decreased by \$24,706 for an ending total fund balance of \$333,223 and unreserved fund balance of \$327,830 at the end of the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library financial statements. The Library basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Library finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Library assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The government-wide financial statements include only the Library itself (known as the *primary government*), and there are no legally separate component units for which the Library is financially accountable.

The government-wide financial statements can be found in the last column on pages 10 and 11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Library's only fund, the General Fund, is considered a governmental fund.

MOUNT CLEMENS PUBLIC LIBRARY MOUNT CLEMENS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Library maintains only a general fund and as such it is considered a major fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for this fund.

The Library adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found in the beginning column on the Statement of Net Assets and Governmental Fund Balance Sheet, and the Statement of Activities and Governmental Revenues, Expenditures and Changes in Fund Balances as noted in the table of contents.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as noted in the table of contents of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's economic position. In the case of the Library, assets exceeded liabilities by \$1,511,770 at the close of the fiscal year.

By far the largest portion of the Library net assets reflects its investment in capital assets (e.g., buildings, equipment, furniture and books), less any related debt used to acquire those assets that is still outstanding. The Library uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the Library investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay any debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**MOUNT CLEMENS PUBLIC LIBRARY
MOUNT CLEMENS, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Library Net Assets		
	2005	2004
Current and other assets	\$ 370,098	\$ 416,066
Capital assets, net	1,341,531	1,296,919
Total assets	1,711,629	1,712,985
Long-term liabilities outstanding	162,499	168,579
Other liabilities	37,360	58,137
Total liabilities	199,859	226,716
Net assets:		
Invested in capital assets, net of related debt	1,226,531	1,171,919
Unrestricted	285,239	314,350
Total net assets	\$ 1,511,770	\$ 1,486,269

Library Activities		
	2005	2004
Revenue:		
Property taxes	\$ 1,360,769	\$ 1,265,232
Other revenues	154,592	146,781
Total revenue	1,515,361	1,412,013
Expenses:		
Contracted wages and benefits	1,056,045	991,479
Other expenses	298,273	256,066
Depreciation	135,542	349,304
Total expenses	1,489,860	1,596,849
Increase in net assets	25,501	(184,836)
Net assets, beginning of year	1,486,269	1,671,105
Net assets, end of year	\$ 1,511,770	\$ 1,486,269

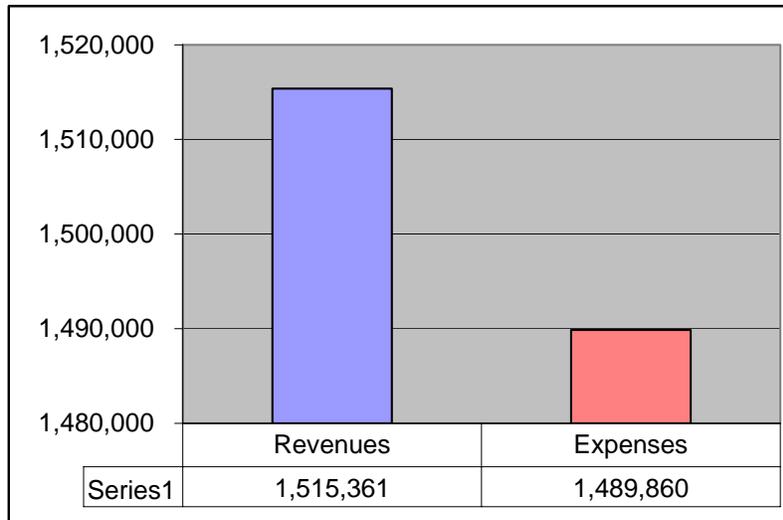
MOUNT CLEMENS PUBLIC LIBRARY MOUNT CLEMENS, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

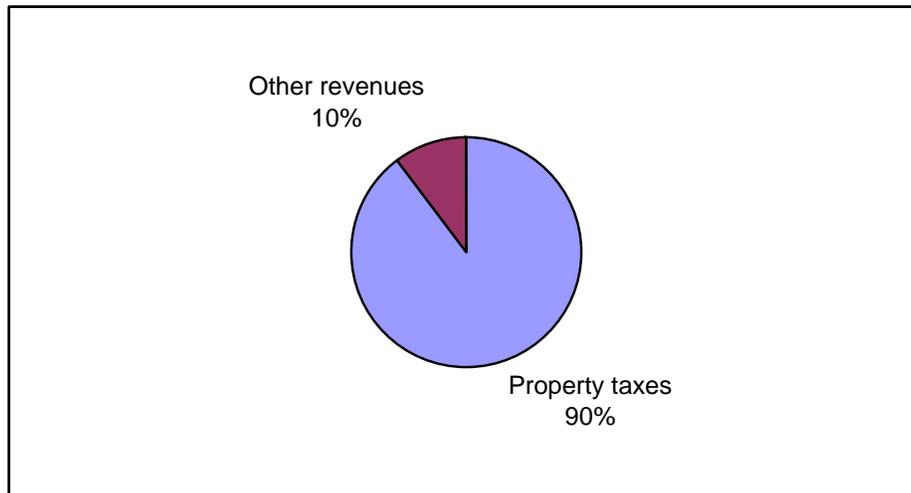
Governmental activities. The Library’s net assets increased by \$25,501 or 2% from the previous year. Key elements of this increase are as follows:

- The increase in revenues, primarily from property taxes exceeded operating expenses due to a reduction in depreciation expense as compared to the prior year.

Revenues and Expenses - Governmental Activities



Revenues by Source - Governmental Activities



MOUNT CLEMENS PUBLIC LIBRARY MOUNT CLEMENS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the Government's Funds

As noted earlier, the Library uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Library *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Library financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Library's governmental fund reported an ending fund balance of \$333,223 , a decrease of \$24,706 compared with prior year.

The general fund is the chief operating fund of the Library. The unreserved fund balance of the general fund was \$327,830 at the end of the fiscal year. As a measure of the general fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. Unreserved fund balance represents 21.3% of total general fund expenditures for the year.

As noted above the fund balance decreased by \$24,706 during the fiscal year. Key factors are as follows:

- Property tax revenues were lower than expected combined with increased contracted wage and benefit expenses.

General Fund Budgetary Highlights

Differences between original budget and the final amended budget revenues were relatively minor for the year. However expenditure appropriation amendments increased by approximately \$75,000 due primarily to increases in capital outlay items for building improvements.

Capital Asset and Debt Administration

Capital assets. The Library's investment in capital assets as of June 30, 2005, amounts to \$1,341,531 (net of accumulated depreciation). This investment in capital assets includes buildings and improvements, equipment, furniture and fixtures, and library materials. The total increase in the Library's investment in capital assets for the current fiscal year was \$44,151 or 3.4%.

**MOUNT CLEMENS PUBLIC LIBRARY
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Major capital asset events during the current fiscal year included the following:

- Building improvements, furniture and equipment purchases related to the renovation project.

**Library Capital Assets
(net of accumulated depreciation)**

	2005	2004
Buildings and improvements	\$ 1,126,812	\$ 1,082,386
Furniture and equipment	40,662	35,422
Books and audio visual	174,057	179,572
Total capital assets (net)	\$ 1,341,531	\$ 1,297,380

Additional information on the Library capital assets can be found in the notes to the financial statements.

Long-term debt. The Library had total bonded debt outstanding of \$ \$115,000 at the end of the fiscal year. The total of this amount is backed by the full faith and credit of the Library.

Library Outstanding Debt

	2005
General obligation refunding bonds	\$ 115,000

During the year the Library issued no new debt and paid approximately \$10,000 of principal on debt outstanding at July 1, 2004.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of the State Equalized Value. The current debt limitation for the Library is approximately \$215,619,123.

Additional information on the Library long-term debt can be found in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

- The 2005-06 budget estimates total revenues at approximately \$1,577,000, an increase of approximately \$62,000.
- 2005-06 budgeted expenditures total \$1,510,000, a decrease of approximately \$30,000 due to a reduction in appropriations for capital outlay items.

**MOUNT CLEMENS PUBLIC LIBRARY
MOUNT CLEMENS, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Requests for Information

This financial report is designed to provide a general overview of the Library finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, 150 Cass Avenue, Mount Clemens, Michigan 48043.

BASIC FINANCIAL STATEMENTS

**MOUNT CLEMENS PUBLIC LIBRARY
MOUNT CLEMENS, MICHIGAN**

**STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2005**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash and cash equivalents	\$ 319,544	\$ -	\$ 319,544
Accounts receivable	45,161	-	45,161
Prepays	5,393	-	5,393
Capital assets, net of accumulated depreciation	-	1,341,531	1,341,531
Total assets	<u>\$ 370,098</u>	<u>1,341,531</u>	<u>1,711,629</u>
LIABILITIES			
Accounts payable	16,934	-	16,934
Accrued expenses	16,236	-	16,236
Accrued interest	-	485	485
Due to other governments	3,705	-	3,705
Long-term debt:			
Due within one year	-	10,000	10,000
Due after one year	-	152,499	152,499
Total liabilities	<u>36,875</u>	<u>162,984</u>	<u>199,859</u>
FUND BALANCES/NET ASSETS			
Fund balances:			
Reserved for:			
Prepays	5,393	(5,393)	-
Unreserved/undesignated	327,830	(327,830)	-
Total fund balances	<u>333,223</u>	<u>(333,223)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 370,098</u>		
Net assets:			
Invested in capital assets, net of related debt		1,226,531	1,226,531
Unrestricted		285,239	285,239
Total net assets		<u>\$ 1,511,770</u>	<u>\$ 1,511,770</u>

The accompanying notes are an integral part of these financial statements.

**MOUNT CLEMENS PUBLIC LIBRARY
MOUNT CLEMENS, MICHIGAN**

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
JUNE 30, 2005**

Fund balances - general fund	\$	333,223
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Add: capital assets		5,453,191
Deduct: accumulated depreciation		(4,111,660)
Certain liabilities, such as bonds payable, accrued interest on bonds payable and accrued compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		
Deduct:		
Bonds payable		(115,000)
Accrued interest on bonds payable		(485)
Accrued compensated absences		(47,499)
		(162,984)
Net assets of governmental activities	\$	1,511,770

The accompanying notes are an integral part of these financial statements.

**MOUNT CLEMENS PUBLIC LIBRARY
MOUNT CLEMENS, MICHIGAN**

**STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES			
Property taxes	\$ 1,360,769	\$ -	\$ 1,360,769
State shared revenue	62,089	-	62,089
Local revenue	53,839	-	53,839
Investment earnings	6,451	-	6,451
Contributions and memorials	10,460	-	10,460
Other revenues	21,753	-	21,753
Total general revenues	<u>1,515,361</u>	<u>-</u>	<u>1,515,361</u>
EXPENDITURES/EXPENSES			
Contracted wages and benefits	1,052,125	3,920	1,056,045
Operating supplies	122,568	-	122,568
Contracted services	166,163	-	166,163
Other expenditures	4,993	-	4,993
Capital outlay	179,693	(179,693)	-
Depreciation	-	135,542	135,542
Debt service:			
Principal	10,000	(10,000)	-
Interest expense	4,525	24	4,549
Total expenditures/ expenses	<u>1,540,067</u>	<u>(50,207)</u>	<u>1,489,860</u>
Revenues over (under) expenditures	(24,706)	24,706	-
Change in net assets	-	25,501	25,501
Fund balance/net assets, beginning of year, as restated	<u>357,929</u>	<u>1,128,340</u>	<u>1,486,269</u>
Fund balance/net assets, end of year	<u>\$ 333,223</u>	<u>\$ 1,178,547</u>	<u>\$ 1,511,770</u>

The accompanying notes are an integral part of these financial statements.

**MOUNT CLEMENS PUBLIC LIBRARY
MOUNT CLEMENS, MICHIGAN**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

Net change in fund balances - general fund	\$ (24,706)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Add: capital outlay	179,693
Deduct: depreciation expense	(135,542)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>	
Add: bond principal payments	10,000
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.</p>	
Deduct: change in accrued interest payable	(24)
Deduct: increase in accrual of compensated absences	(3,920)
Net assets of governmental activities	<u>\$ 25,501</u>

The accompanying notes are an integral part of these financial statements.

**MOUNT CLEMENS PUBLIC LIBRARY
MOUNT CLEMENS, MICHIGAN**

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with Final Budget- Positive (Negative)
GENERAL REVENUES				
Property taxes	\$ 1,392,028	\$ 1,397,528	\$ 1,360,769	\$ (36,759)
State shared revenue	60,000	60,000	62,089	2,089
Local revenue	40,000	40,000	53,839	13,839
Investment earnings	1,000	4,000	6,451	2,451
Contributions and memorials	2,000	10,000	10,460	460
Other revenues	22,000	22,000	21,753	(247)
Total general revenues	<u>1,517,028</u>	<u>1,533,528</u>	<u>1,515,361</u>	<u>(18,167)</u>
EXPENDITURES/EXPENSES				
Contracted wages and benefits	1,070,000	1,034,379	1,052,125	(17,746)
Operating supplies	200,000	139,000	122,568	16,432
Contracted services	178,500	181,175	166,163	15,012
Other expenditures	4,500	5,000	4,993	7
Capital outlay	25,000	189,000	179,693	9,307
Debt service:				
Principal	12,000	12,000	10,000	2,000
Interest expense	-	4,525	4,525	-
Total expenditures/ expenses	<u>1,490,000</u>	<u>1,565,079</u>	<u>1,540,067</u>	<u>25,012</u>
NET CHANGE IN FUND BALANCES	27,028	(31,551)	(24,706)	6,845
Fund balance/net assets, beginning of year	<u>357,929</u>	<u>357,929</u>	<u>357,929</u>	<u>-</u>
Fund balance/net assets, end of year	<u>\$ 384,957</u>	<u>\$ 326,378</u>	<u>\$ 333,223</u>	<u>\$ 6,845</u>

The accompanying notes are an integral part of these financial statements.

MOUNT CLEMENS PUBLIC LIBRARY MOUNT CLEMENS, MICHIGAN

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Mount Clemens Public Library (“the Library”) was organized in 1994 and is considered a local governmental unit. It is governed by a seven member board of trustees.

The Library’s borders encompass the City of Mount Clemens and a portion of Clinton Township. Properties in each governmental unit are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are considered delinquent on March 1 of the subsequent year, at which time penalties and interest are assessed.

The Library has determined that no entities should be consolidated into its basic financial statements as component units. The criteria for including a component unit include entities for which the government is considered to be financially accountable. Therefore, the reporting entity consists only of the primary government.

B. Library-Wide and Fund Financial Statements

The Library-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The major individual governmental fund is reported as a separate column in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MOUNT CLEMENS PUBLIC LIBRARY MOUNT CLEMENS, MICHIGAN

Notes to the Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes received, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following major governmental fund:

The *General Fund* is the Library's only fund. It accounts for all financial resources of the general government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Library-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Library has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed. There is no exception to this policy.

D. Assets, Liabilities, and Net Assets

1. Deposits and investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Library to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury and agencies, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

**MOUNT CLEMENS PUBLIC LIBRARY
MOUNT CLEMENS, MICHIGAN**

Notes to the Financial Statements

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). There were no such interfund loans outstanding as of year end. All other outstanding balances between funds are reported as “due to/from other funds.”

3. *Capital assets*

Capital assets, which include building and building improvements, library books and AV materials, and furniture and equipment, are reported in the Statement of Net Assets column in the basic financial statements. Capital assets are defined by the Library as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	7-50
Furniture and equipment	5-20
Library books and audiovisual materials	5-10

4. *Compensated absences*

The Library allows workers to accumulate earned but unused vacation pay benefits under an agreement with Mount Clemens Public Schools. All vacation pay is accrued when incurred in the library-wide financial statements. A liability for these amounts is reported in governmental funds only for eligible worker terminations as of year end.

5. *Long-term obligations*

In the Library-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**MOUNT CLEMENS PUBLIC LIBRARY
MOUNT CLEMENS, MICHIGAN**

Notes to the Financial Statements

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted, on a basis consistent with generally accepted accounting principles (GAAP), for the general fund. All annual appropriations lapse at fiscal year end.

The general fund is under formal budgetary control. Budgets are adopted on a basis consistent with GAAP, and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Board. The budget for the General Fund is adopted on a categorical level.

B. Excess expenditures over appropriations

During the year ended June 30, 2005, actual appropriations for contracted wages and benefits of \$1,052,125 exceed the budgeted amount of \$1,034,379 by \$17,746.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

	Cash and Cash Equivalents
Statement of Net Assets	
Deposits	\$ 318,544
Petty cash	795
MILAF/MIMAX	205
Total	\$ 319,544

MOUNT CLEMENS PUBLIC LIBRARY

MOUNT CLEMENS, MICHIGAN

Notes to the Financial Statements

Michigan law authorizes the Library to deposit and invest in:

- 1 Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- 2 Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- 3 Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- 4 Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- 5 Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- 6 Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above. The Library's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on investment credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. As of year-end, \$218,544 of the \$318,544 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not

**MOUNT CLEMENS PUBLIC LIBRARY
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Notes to the Financial Statements

require and the Library does not have a policy for investment custodial credit risk. The Library's total investment of \$205 in a short-term investment pool is registered with the Securities Exchange Commission (the "SEC"). The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The short-term investments are not required to be classified according to custodial credit risk since they are not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of State law on concentration of credit risk. All investments held at year-end are reported above.

B. Receivables

Receivables as of year end for the major fund is considered 100% collectible and to be collected within one year. Accordingly, no allowance for uncollectible receivables has been established.

C. Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets being				
Depreciated				
Buildings and improvements	\$ 1,183,047	\$ 87,498	\$ -	\$ 1,870,545
Library books and AV	3,448,051	79,634	-	3,527,685
materials	42,400	12,561	-	54,961
Furniture and equipment	<u>42,400</u>	<u>12,561</u>	<u>-</u>	<u>54,961</u>
Total capital assets being				
depreciated	<u>5,273,498</u>	<u>179,693</u>	<u>-</u>	<u>5,453,191</u>
Less accumulated depreciation				
Buildings and improvements	(700,661)	(43,072)	-	(743,733)
Library books and AV	(3,268,479)	(85,149)	-	(3,353,628)
materials	(6,978)	(7,321)	-	(14,299)
Furniture and equipment	<u>(6,978)</u>	<u>(7,321)</u>	<u>-</u>	<u>(14,299)</u>
Total accumulated depreciation	<u>(3,976,118)</u>	<u>(135,542)</u>	<u>-</u>	<u>(4,111,660)</u>
Total capital assets being				
depreciated, net	<u>1,297,380</u>	<u>44,151</u>	<u>-</u>	<u>1,341,531</u>
Governmental activities				
capital assets, net	<u>\$ 1,297,380</u>	<u>\$ 44,151</u>	<u>\$ -</u>	<u>\$ 1,341,531</u>

**MOUNT CLEMENS PUBLIC LIBRARY
MOUNT CLEMENS, MICHIGAN**

Notes to the Financial Statements

D. Long Term Debt

In 2004 the Library issued Limited Tax General Obligation Bonds to fund improvements to the Library's facility. General obligation bonds are direct obligations and pledge the full faith and credit of the Library. The refunding bonds were issued as a 12 year serial bond with varying amounts of principal due and interest ranging from 2.3% to 4.95% due each year.

Annual debt service requirements to maturity for the general obligation refunding bonds are as follows:

<u>June 30,</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2006	\$ 10,000	\$ 4,633
2007	10,000	4,383
2008	10,000	4,103
2009	10,000	3,783
2010	10,000	3,433
2011-2015	50,000	10,783
2016	15,000	743
Total	<u>\$ 115,000</u>	<u>\$ 31,861</u>

Changes in long-term debt

Long-term liability activity for the year ended June 30, 2005, was as follows. Compensated absences are typically liquidated through sources from the general fund.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable	\$ 125,000	\$	\$ (10,000)	\$ 115,000	\$ 10,000
Compensated absences	43,579	3,920	-	47,499	-
Long-term liabilities	<u>\$ 168,579</u>	<u>\$ 3,920</u>	<u>\$ (10,000)</u>	<u>\$ 162,499</u>	<u>\$ 10,000</u>

**MOUNT CLEMENS PUBLIC LIBRARY
MOUNT CLEMENS, MICHIGAN**

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for torts, errors, and omissions claims. The Library participates in the Middle Cities Risk Management Trust (risk pool) for claims relating to property and casualty, the Middle Cities Workers Compensation Fund for workers' compensation, and Blue Cross/Blue Shield for health care. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared risk pool program in which the Library participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

B. Operating and Maintenance Agreement

The Library has entered into a contract with Mount Clemens Community Schools (the "District") under which the District will supply the Library with personnel, including benefits (other than accumulated vacation pay), and will act as the fiscal agent with respect to the operation and maintenance of the Library. The Library paid \$50,000 to the District for operation and maintenance services during the year ended June 30, 2005. The amount of future fees the Library will be required to pay to the District will be determined at appropriate junctures.

C. Prior Period Adjustment

Net assets as previously stated June 30, 2004	\$ 2,369,175
Adjustment to recognize accumulated depreciation over a useful life of five years on books and audio visual materials	<u>(882,906)</u>
Net assets as restated	<u><u>\$ 1,486,269</u></u>

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

November 15, 2005

To the Board of Trustees
Mount Clemens Public Library
Mount Clemens, Michigan

We have audited the financial statements of the governmental activities and the major fund of the *Mount Clemens Public Library, Mount Clemens Michigan* (the "Library") as of and for the year ended June 30, 2005, which collectively comprise the *Library's* basic financial statements and have issued our report thereon dated November 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered *Library's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Library's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

November 15, 2005

To The Mount Clemens Public Library
Mount Clemens, Michigan

In planning and performing our audit of the financial statements of the *Mount Clemens Public Library*, for the year ended June 30, 2005, we considered the Library's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated November 15, 2005, on the financial statements of the *Mount Clemens Public Library*.

The accompanying comments and recommendations are intended solely for the information and use of the audit committee, management, and others within the organization and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed of these comments and suggestions with various the Library Director, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the Library in implementing the recommendations.

We would like to thank the Library Director and Fiscal Agent of the *Mount Clemens Public Library* for their assistance and cooperation in completing the audit.

A.) MOUNT CLEMENS LIBRARY BOOSTERS BANK ACCOUNT

During our procedures we noted that the Mount Clemens Library Boosters cash account is currently established using the Mount Clemens School District federal identification number.

Due to the close association of this organization with the Library, we would recommend that the Board consider establishing this cash account under the Library's federal identification number.

In addition we noted that the Library effectively acts as a fiduciary for this fund. As such we would recommend that the Library account for the Library Boosters activity as a Trust and Agency Fund on the Library's financial statements in future years.